

Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS PRIORITY

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

INFO USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL BREMEN

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SUBJECT:EC GSP TOBACCO QUOTA

REF: EC BRUSSELS 6385

1. EC COMMISSION PROPOSAL REPORTED REFTEL WOULD CUT DUTY FOR GSP SUPPLIERS IN HALF ON ABOUT 42 MILLION POUNDS OF TOBACCO IN A TARIFF CATEGORY THAT COVERS A LARGE PART OF U.S. EXPORTS TO THE EC. ACCELERATED GSP DUTY REDUCTION FOR 24.01A FLUE-CURED THUS WILL INCREASE PRESENT SEVERE PRICE DISADVANTAGE OF U.S. LEAF AND CAN BE EXPECTED TO REDUCE FURTHER U.S. TOBACCO EXPORTS TO EC, WHICH ARE ALREADY RUNNING 28 PERCENT BELOW LAST YEAR'S.

2. IN ORDER TO GIVE IRELAND DUTY RELIEF ON 750 TONS OF TOBACCO, AND IN THE FACE OF ARTIFICIAL PARITIES BETWEEN THE U/A AND MEMBER STATE CURRENCIES, THE COMMISSION PROPOSES TO CUT THE DUTY IN HALF ON 19,000 TONS OF TOBACCO ON A PREFERENTIAL BASIS. (THIS IS ABOUT 20 PERCENT OF OUR 1975 EXPORTS.) THUS ALL MEMBERS -- WHETHER THEIR CURRENCIES ARE WEAK OR STRONG RELATIVE TO THE U/A -- WILL BENEFIT IN PROPORTION TO THEIR QUOTA ALLOCATIONS.

3. THE DECLINE IN EC DEMAND FOR U.S. FLUE-CURED TOBACCO DUE TO ACCELERATION OF GSP ON THIS PRODUCT IS EXPECTED TO REDUCE EXPORT PURCHASES FROM 1976 U.S. CROP, FOR WHICH MARKETING SEASON IS ABOUT TO BEGIN. THIS COULD HAVE DEPRESSIVE EFFECT ON GROWER PRICES AND LEAD TO HEAVIER INTERVENTION PURCHASES BY FARMER CO-OPS (BACKED BY CCC) FROM 1976 CROP. U.S. TOBACCO INTERESTS ALREADY ARE AWARE OF COMMISSION'S PROPOSAL AND HAVE ASSESSED ITS IMPLICATIONS. THEY ARE CONVINCED THAT IT IS FURTHER EVIDENCE OF SYSTEMATIC AND DELIBERATE DISCRIMINATION AGAINST U.S. TOBACCO.

4. WE HAVE HOPED THAT THE COMMISSION MIGHT FIND A SIMPLER, MORE EQUITABLE (FOR MFN SUPPLIERS) ARRANGEMENT FOR SOLVING IRELAND'S PROBLEM. SUCH A SOLUTION MIGHT BE THE RAISING OF THE VALUE BREAKPOINT BETWEEN 24.01B AND A. 24.01A COVERS TOBACCO VALUED AT OVER U/A 280 PER LIMITED OFFICIAL USE

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100 KILOS, WHICH INCLUDES MOST U.S. EXPORTS. SINCE VALUATION OF BREAKPOINT IN NATIONAL CURRENCIES IS BASED ON OLD PAR RATES (IN THIS CASE, .42 IRISH POUND PER U/A, COMPARED TO CURRENT MARKET RATE OF .58 IRISH POUND PER U/A) MORE TOBACCO ENTERS IRELAND ABOVE BREAKPOINT THAN WOULD BE THE CASE IF MARKET VALUES WERE USED. RAISING BREAKPOINT FOR IRELAND WOULD ALLOW MORE TOBACCO TO ENTER BELOW BREAKPOINT AND RESULT IN APPLICABILITY

OF LOWER DUTY.

5. ACTION ADDRESSEES ARE REQUESTED TO APPROACH
HOST GOVERNMENTS AND COMMISSION OFFICIALS AT POLICY
LEVELS TO ATTEMPT TO HEAD OFF COUNCIL ACCEPTANCE OF
COMMISSION PROPOSAL. STRONGLY URGE EC TO FIND AN
ALTERNATIVE SOLUTION (SUCH AS THAT SUGGESTED IN PARA. 4)
WHICH WILL NOT ADD TO DISCRIMINATORY EFFECT OF GSP
ON U.S. TOBACCO EXPORTS, WHILE LEAVING RESOLUTION OF
LARGER ISSUES IN TOBACCO TRADE FOR MTN. KISSINGER

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